

Message Text

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ACTION EUR-08

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LIMDIS

DEPT PASS TREASURY

BRUSSELS ALSO FOR USSEC

E.O. 11652: GDS
TAGS: ECON, EFIN, DA
SUBJECT: DANISH FINANCE MINISTER DISCUSSES DEVALUATION

1. ON JULY 26 I CALLED ON FINANCE MINISTER KNUD
HEINESEN AT HIS REQUEST. IN THE COURSE OF A 40-
MINUTE DISCUSSION, DANISH FINANCE MINISTER (A) GAVE
ME A MEMORANDUM ON THE DANISH ECONOMIC SITUATION,
(B) COMMENTED ON HOW THE DANISH GOVT INTENDS TO
COPE WITH ITS ECONOMIC AND FINANCIAL PROBLEMS,
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AND (C) ANSWERED MY QUESTIONS REGARDING POSSIBLE
CHANGES IN THE EXCHANGE RATE OF THE DANISH KRONER.
POINTS (A) AND (B) ARE COVERED IN SEPARATE
COMMUNICATNONS. THIS MESSAGE DEALS ONLY WITH
HEINESEN'S REMARKS REGARDING DENMARK'S CONTINUED
RELATIONSHIP WITH THE SNAKE.

2. IN REPLY TO MY QUESTION, THE FINANCE MINISTER SAID THAT "DENMARK COULD NOT REMAIN INDIFFERENT" IN THE EVENT OF A DEVALUATION OF THE SWEDISH KRONER. WHEN I PRESSED THE FINANCE MINISTER ON WHETHER DENMARK WOULD NOT HAVE TO REACT AS IT DID IN APRIL (WHEN SWEDEN DEVALUED BY SIX PERCENT WHICH FORCED DENMARK TO DEVALUE BY THREE PERCENT), HEINESEN APPEARED TO AGREE.

3. I THEN ASKED THE FINANCE MINISTER WHAT WOULD HAPPEN IF SWEDEN WERE TO WITHDRAW FROM THE SNAKE. AN ARTICLE WHICH HAD APPEARED IN THE FRENCH NEWSPAPER, LEMONDE, SPECULATED THAT SWEDISH WITHDRAWAL FROM THE SNAKE WOULD FORCE DENMARK AND NORWAY TO FOLLOW SUIT. HEINESEN VIGOROUSLY REFUTED THAT LINE. HE SAID HE HAD BEEN IN CONTACT WITH HIS SWEDISH COLLEAGUE RECENTLY WHO CLAIMED HE WAS OPPOSED TO DEVALUATION AND CERTAINLY WAS NOT THINKING IN TERMS OF WITHDRAWING FROM THE SNAKE. HOWEVER, REGARDLESS OF WHAT SWEDEN DOES, HEINESEN SAID THAT DENMARK IS COMMITTED TO STAYING WITHIN THE SNAKE NOT ONLY FOR FINANCIAL AND ECONOMIC, BUT ALSO FOR POLITICAL REASONS. HE DID NOT EXCLUDE THE POSSIBILITY, HOWEVER, OF ANOTHER DANISH REALIGNMENT VIS-A-VIS OTHER SNAKE CURRENCIES.
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4. COMMENT: WE DID NOT DISCUSS THE WEAKENING OF THE DOLLAR NOR ITS IMPACT ON THE DANISH KRONER. I CAME AWAY FROM THIS MEETING WITH THE FINANCE MINISTER WITH THE IMPRESSION THAT THERE WILL PROBABLY BE A "SLIDING" OF THE DANISH KRONER IN RELATION TO OTHER SNAKE CURRENCIES AND PERHAPS ALSO VIS-A-VIS THE DOLLAR. NO STEEP DEVALUATIONS ARE APPARENTLY NOW CONTEMPLATED BY THE DANISH GOVT. MANIPULATION OF THE EXCHANGE RATE IS NOT THE WAY DENMARK PLANS TO TACKLE ITS ECONOMIC AND BALANCE OF PAYMENTS PROBLEMS. HOW THE DANES, AND THE MINISTER OF FINANCE IN PARTICULAR, PLAN TO FACE THESE LATTER PROBLEMS IS DISCUSSED IN SEPARATE COMMUNICATIONS.
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